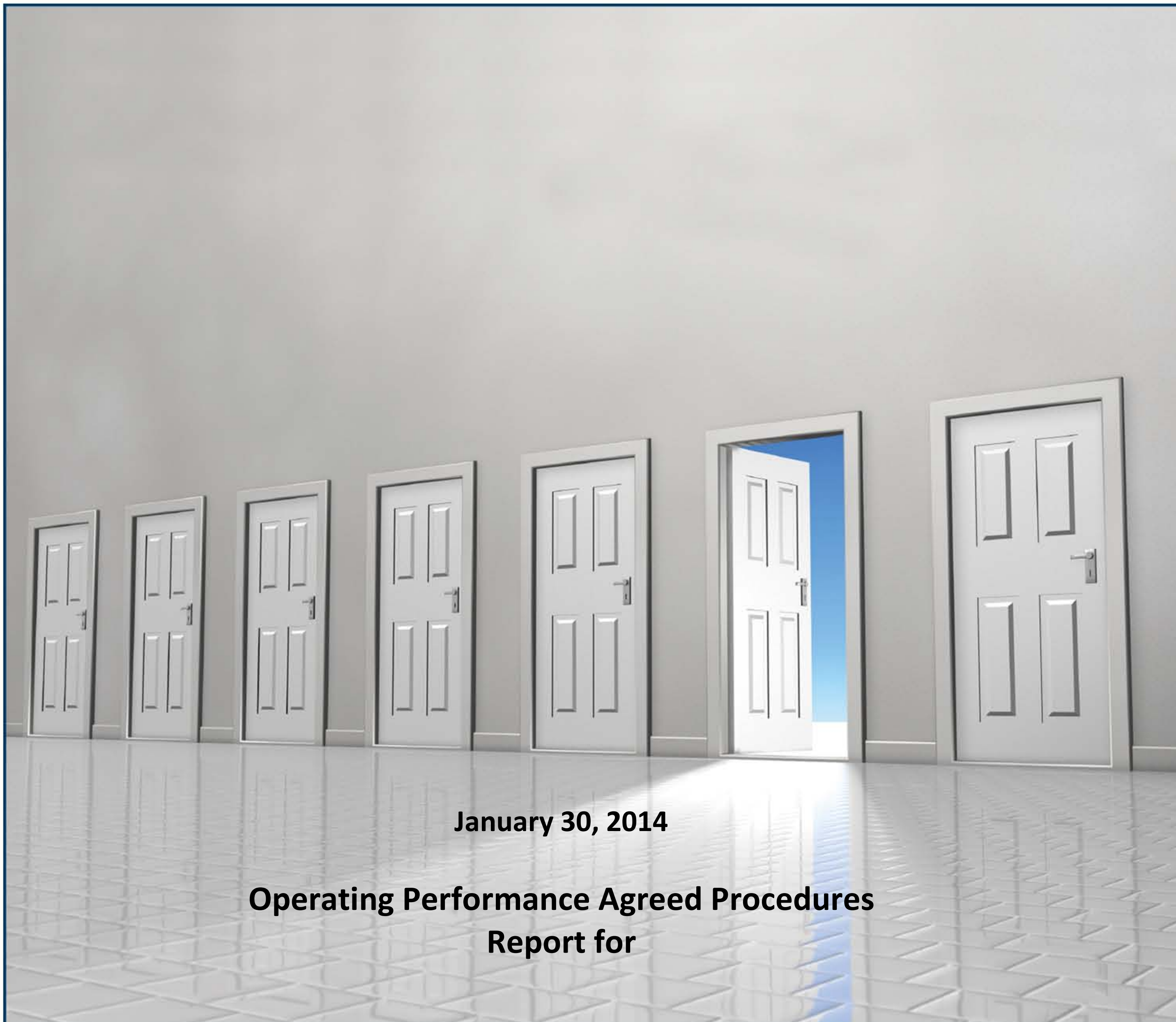

January 30, 2014

Operating Performance Agreed Procedures Report for

Paragon Quality, LLC

Prepared by:

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Section One - Executive Summary

We have been engaged to assist the New Jersey Housing and Mortgage Finance Agency ("NJHMFA") in applying certain procedures in connection with NJHMFA's evaluating certain operating performance areas of Paragon Quality, LLC ("PQ, LLC"). Presented below are the findings resulting from our engagement.

We performed all tasks in conformance with the Statement on Standards for Consulting Services of the American Institute of Certified Public Accountants (AICPA). You understand that this is an unaudited consulting service. This service is not specifically designed, and should not be relied upon to disclose fraud, defalcations, other illegal acts, or errors or similar irregularities, should any exist.

Because our procedures did not constitute an audit performed in accordance with auditing standards generally accepted in the United States of America; or an examination, review or agreed upon procedures performed under the attestation standards of the American Institute of Certified Public Accountants, we do not express an opinion on any of the specified elements, accounts or items included in the financial statements or on the financial statements taken as a whole. If we had performed additional procedures, or if we had conducted an examination or review of the specified elements, accounts or items of the financial statements, or agreed upon procedures in accordance with professional standards, matters in addition to our findings may have come to our attention and been reported to you.

The agreed procedures are solely to assist NJHMFA in evaluating certain operating performance areas of Paragon Quality, LLC and do not constitute an examination. Any observations and conclusions contained in this report are subject to change based on the results of any further mutually agreed procedures.

Business Overview

The historical financial information is derived from the quarterly financial statements of PQ, LLC during the fiscal year ended December 31, 2013. PQ, LLC is a senior living campus located in Mt. Olive Township, Morris County, New Jersey that provides assisted living services to elderly residents. While the physical plant and current residents have been in existence for some years, the operating company of PQ, LLC has been in existence since January 1, 2013.

Engagement Scope

CliftonLarsonAllen LLP ("CLA") conducted its evaluation of certain operating performance areas during December 2013 and January 2014 on PQ, LLC with a focus on the specific operational performance procedures specified by NJHMFA as determined in Appendix A of the executed engagement letter between CLA and NJHMFA and mutually agreed to. This engagement is solely to assist NJHMFA and management of PQ, LLC to evaluate certain operating performance procedures of PQ, LLC. Consequently, we make no representation regarding the sufficiency of the procedures performed either for the purpose for which this deliverable ("deliverable") has been requested or for any other purpose.

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Our observations were based on:

1. Analysis of financial information, including quarterly financial statements (e.g. balance sheet, profit and loss statement, accounts receivable aging, and accounts payable aging) provided by PQ, LLC's management ("Management"), which covered the four quarters ending December 31, 2013.

2. Discussions with the PQ, LLC Management:
    - Kim Polachek, Executive Director
    - Kim Neff, Business Office Manager

3. Discussions with NJHMFA:
    - Susan Vernacchio, Hospicomm Accountant
    - Mihail Davidovich, Hospicomm Accountant

Section Two - Documentation of Work Plan and Findings

This section contains detailed information on the nature and extent of the work performed, based on the engagement letter dated December 16, 2013.

1) Discuss the following with Paragon Quality, LLC Management:

- Financial reporting methodology and consistency of application:
    - Based on our discussions with management and reading of the quarterly financial statements, the financial reporting methodology appears to be applied on a consistent basis each month.

- Adjustments to normalize earnings
    - Based on our reading of the financial statements and analysis completed, we did not note any one time, extraordinary, non-recurring events that would require an adjustment to normalize earnings.

- Non-routine items or adjustments
    - Based on our review of year-end adjustments, there was an adjustment to remove fixed assets, accumulated depreciation and associated depreciation expense as PQ, LLC does not own or retain title to fixed assets and the associated depreciation. This removed $422,562 of non-cash expense from the internal financial statements.

- Any significant accounting estimates and reserves for:
    - Adjustments necessary to convert financial statements from cash to accrual basis
        - We reviewed the internal financial statements with Management, read certain supporting schedules and performed certain analytical analysis between quarters in fiscal 2013. It appears that all significant accrual items were made to the internal financial statements.
        - At year-end there were sixteen adjustments that increased net income by $29,922. The adjustments reconciled the trial balance to supporting data at December 31, 2013.

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- Billing and collection procedures
    - We discussed the billing and collection process with management and read the aging reports prepared by management. It appears that billing and collection procedures are applied consistently.

- Methodologies used to estimate contractual and bad debt allowances
    - While PQ, LLC does not have written billing and collection policies, we did discuss the process of estimating contractual and bad debt allowances with management including the business office manager. There was no contractual or bad debt allowance calculated on receivables as substantially all amounts are collected prior to month end for that particular month. Management believes any receivables that remain outstanding at each quarter end, are collectable. Unpaid amounts are typically held up due to incomplete insurance forms or paperwork not being completed timely. Based on the activity we noted in the aging of receivables it appears this is reasonable.

- Recent or contemplated changes in accounting principles, procedures, or estimates
    - We discussed this with Management. There are no written policies or procedures for review. There were no changes noted or contemplated by Management.

- Intercompany accounts and related party transactions
    - We reviewed the financial statements with Management for each quarter during fiscal 2013 and discussed related party transactions. The only related party transaction is for excess cash flow not necessary for operations of PQ, LLC. Per agreement, this amount is transferred to NJHMFA and amounted to $505,000 during fiscal 2013.

- Internal control environment
    - There are limited personnel in the finance department that could lend itself to lack of segregation of duties, however management and facility personnel do segregate processes to the extent possible. We also noted that cash account reconciliations are performed on a monthly basis. Nothing came to our attention that would require management to estimate or reserve for, related to the internal control environment.

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2) Obtain the financial statements of Paragon Quality, LLC and perform the following analysis for each quarter:

The summary of trends, by quarter, in Net Operating Income is summarized as follows:

	Q1	Q2	Q3	Q4
Gross Revenues	$1,339,637	$1,441,797	$1,526,047	$1,588,152
Less:				
Salaries	854,413	933,169	811,643	939,733
Dietary	106,275	112,161	99,352	112,602
Utilities	123,904	94,320	94,004	88,023
Repairs and Maintenance	110,917	75,070	95,157	96,740
General and Administrative	63,709	46,013	56,420	70,358
Housekeeping	7,174	10,381	6,795	11,099
Interest Expense	143	1,184	184	175
Total Expenses	$1,266,535	$1,272,298	$1,163,555	$1,318,730
Net Operating Income	$73,102	$169,499	$362,492	$269,422
Income %	5.46%	11.76%	23.75%	16.96%

Observations:

- As indicated in the schedule above, gross revenues increased steadily from the 1st quarter through the 4th quarter as occupancy increased.
- Operating expenses remained relatively level from quarter to quarter. Salary expense for Quarters 1 and 3 contained 6 pay cycles and Quarters 2 and 4 contained 7 pay cycles recorded. This resulted in higher salary expense in Quarters 2 and 4.
- As can be seen in the schedule above, utility expense reaches a high point in the first quarter each year. Based on our discussions with management the winter season brings higher heating costs.
- Occupancy increased and was strong during 2013. Management controlled costs resulting in steady improvement in operating income throughout the year. The results in Quarters 3 and 4 indicate that operating performance stabilized during the second half of fiscal 2013.

The summary of trends, by quarter, in Earnings before Interest, Depreciation and Amortization (EBIDA) is summarized as follows:

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	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13
Net Income - Unaudited	$73,102	$169,499	$362,492	$269,422
Interest Income	0	0	0	0
Interest Expense	143	1,184	184	175
Depreciation	0	0	0	0
Amortization	0	0	0	718
EBIDA Calculation Per Quarter	**$73,245**	**$170,683**	**$362,676**	**$270,315**

Observations:

- The schedule illustrates the calculation of EBIDA. This schedule adds back non-cash items, interest expense and amortization to the net income for each quarter in 2013.
- There was no deprecation applicable to PQ, LLC during fiscal 2013.
- As the schedule indicates cash flow was positive each quarter during fiscal 2013.
- EBIDA increased during the second half of 2013 as operating performance stabilized.

The summary of trends, by quarter, in accounts receivable is summarized as follows:

Collections/Accounts Receivable: Kim Neff, Business Office Manager, is responsible for monitoring receivables and placing collection calls as necessary.

The following table summarizes the receivable aging:

Days Delinquent	Q1	Q2	Q3	Q4
Current	3,818	0	(38,354)	(17,161)
1-30 Days	(44,507)	(32,601)	9,740	(32,231)
31-60 Days	(55,543)	25,870	41,305	20,982
61-90 Days	2,528	3,845	(500)	(4,380)
> 90 Days	172,426	118,914	174,489	213,635
Total Balance	**$78,722**	**$116,028**	**$186,680**	**$180,845**

Observations:

- The schedule indicates certain credit balances. This results from rent amounts being collected in advance.
- There is an offsetting deferred revenue amount of $97,326 in accrued liabilities at December 31, 2013 and $131,119 in accrued liabilities at March 31, 2013, June 30, 2013 and September 30, 2013 for amounts included in the above schedule.
- Management believes amounts not collected are isolated and infrequent; therefore an allowance for doubtful accounts against the receivables was not recorded in any quarter for 2013.
- Amounts for rent revenue are typically collected by the end of the month for the current month.

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The summary of trends, by quarter, in accounts payable is summarized as follows:

Accounts Payable: Upon receipt of an invoice, Kim Neff, Business Office Manager, is responsible for recording the invoice in the QuickBooks system. Ms. Neff obtains approval from Kim Polachek, Executive Director, for payment of invoices.

The following table summarizes accounts payable aging:

Days Delinquent	Q1	Q2	Q3	Q4
Current	$55,462	$37,081	$30,260	$28,784
1-30 Days	18,221	(451)	435	0
31-60 Days	14,410	9	0	0
61-90 Days	0	0	0	0
> 90 Days	(15)	(15)	0	0
Total Balance	**88,078**	**36,624**	**30,695**	**28,784**

Observations:

- As the schedule indicates accounts payable steadily decreased through fiscal 2013 as cash became available. We discussed this with management and this appears to be reasonable.
- Based on our discussion with management and reading of the accounts payable reports, accounts payable at the end of December 2013 are current and thought to be all inclusive.

Balance Sheet Review:
We obtained and reviewed the balance sheets for the four quarters of 2013 with management. We also reviewed invoices related to capital expenditures. Our observation regarding the balance sheets were as follows:

a) Cash in the main operating account was $284,143 at December 31, 2013.
b) Current liabilities consisted primarily of security deposits and remained consistent during 2013.
c) No allowance for doubtful accounts was present.
d) In our review of current assets and current liabilities, no anomalies were observed that would impact the working capital amounts listed in the financial statements.
e) There were capital assets leased in the amount of $10,051. There was amortization of $718 recorded related to the leased assets at December 31, 2013.

3) Analysis of Significant Commitments and Contingent Liabilities:

Based on our review of lease agreements and payments and through discussions with Management, there appears to be no significant commitments or contingent liabilities that are not recorded related to:

- Leases and related terms
- Self-insurance liabilities
- Employee benefits
- Incentive compensation

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4) **Analysis of Payroll Expense:**
   Through discussions with management, there appears to be no changes in policies, union contracts, stock compensation, pension and profit sharing plans, or employment contracts during 2013.

5) **Inquire About Contractual or other Commitments subsequent to December 31, 2013:**
   Based on our discussions with management there were no contractual or other commitments that occurred subsequent to December 31, 2013 that required accrual at December 31, 2013.

Respectively Submitted,

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